

ORIGINAL



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MEMORANDUM

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2011 MAY -3 P 3:45

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

AZ CORP COMMISSION
DOCKET CONTROL

DATE: May 3, 2011

RE: STAFF REPORT – FOR NARVOL D BALES DBA SUNIZONA WATER
COMPANY FOR A PERMANENT RATE INCREASE (DOCKET NO. W-
03912A-11-0014)

Attached is the Staff Report for Narvol D. Bales dba Sunizona Water Company application for a permanent rate increase. Staff recommends approval of the application using Staff's recommended rates and charges.

Any party wishing to file comments regarding the Staff Report may do so by filing those comments with the Arizona Corporation Commission's Docket Control by May 13, 2011.

SMO:GWB:kdh

Originator: Gerald W. Becker

Attachment: Original and fifteen copies

Arizona Corporation Commission
DOCKETED
MAY 3 2011

DOCKETED BY *RBS*

Service List for: Sunizona Water Company
Docket Nos. W-03912A-11-0014

Mr. Narvol D. Bales
Sunizona Water Company
5416 E. Highway 181
Pearce, Arizona 85625

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**NARVOL D. BALES DBA
SUNIZONA WATER COMPANY**

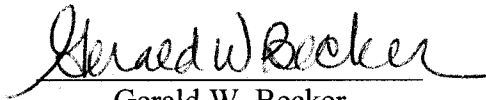
DOCKET NO. W-03912A-11-0014

**APPLICATION FOR A
PERMANENT RATE INCREASE**

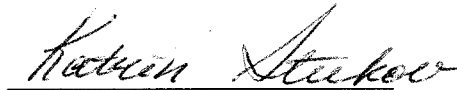
MAY 3, 2011

STAFF ACKNOWLEDGMENT

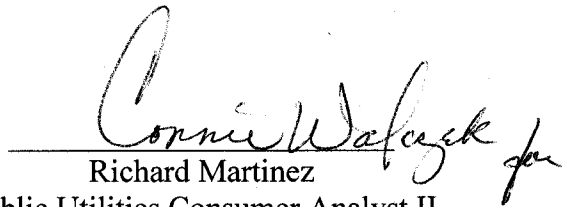
The Staff Report for Narvol D. Bales dba Sunizona Water Company Docket No. W-03912A-11-0014 is the responsibility of the Staff members listed below. Gerald W. Becker is responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base, rate design and financial analyses. Katrin Stukov is responsible for the engineering and technical analysis. Richard Martinez is responsible for analysis of complaints, inquiries, opinions and any other consumer data relative to this case.



Gerald W. Becker
Public Utility Analyst V



Katrin Stukov
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
NARVOL D. BALES DBA
SUNIZONA WATER COMPANY
DOCKET NO. W-03912A-11-0014**

On January 10, 2011, Narvol D. Bales dba Sunizona Water Company ("Sunizona" or "Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On February 15, 2011, and February 17, 2011, Sunizona filed certain amendments to its rate application.

Sunizona is a sole proprietorship owned by Narvol D. "Dean" Bales. Sunizona is a Class E utility engaged in the business of providing water service to 39 customers. Sunizona is located in Cochise County, Arizona.

The Company's amended rate application requested a revenue increase of \$21,065, or 107.62 percent, over test year revenue of \$19,573. The Company-proposed rates, as amended, produce operating revenues of \$40,638 and an operating loss of \$10,328 for a negative rate of return on a \$151,401 Original Cost Rate Base ("OCRB"). The Company's requested rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$36.67 for an increase of \$15.72, or 75.0 percent. The Company's requested rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$55.50 for an increase of \$25.19, or 83.1 percent.

Staff recommends total operating revenues of \$37,745, an increase of \$16,346, or 76.39 percent over the Staff-adjusted test year revenue of \$21,399, and an operating income of \$6,475 for an 11.50 percent rate of return on a Staff-adjusted OCRB of \$56,310. Staff's recommended rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$23.19 for an increase of \$2.24, or 10.7 percent. Staff's recommended rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$36.63 for an increase of \$6.31, or 20.8 percent.

The Company has proposed an OCRB of \$151,401.¹ Staff recommends an OCRB of \$56,310.

STAFF RECOMMENDS:

- Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule GWB-4.
- Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

¹ The Company did not propose a fair value rate base that differs from its OCRB.

- Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.
- Since the Company does not have a curtailment plan tariff, Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the Decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.
- Staff recommends that the Company be ordered to use Staff's typical and customary depreciation rates in the accounts listed in Table B of the attached Engineering Report on a going-forward basis.

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Engineering Report	A
Consumer Services Memo	B

FACT SHEET

Current Rates:

Decision No. 62578, dated May 16, 2000, an application for a permanent rate increase. Decision No. 63154. October 16, 2000, transferred the CC&N to its present owner, Narvol D. Bales.

Type of Ownership:

Sole-Proprietorship.

Location:

The Company serves 36 residential and 3 commercial customers in Pearce, Arizona.

Rates:

Permanent rate increase application filed January 10, 2011. Amendments to application filed February 15, 2011, and February 17, 2011.

Current Test Year Ended: December 31, 2009.

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Monthly Minimum Charges:			
5/8 x 3/4-inch meter	\$11.00	\$16.50	\$13.75
3/4-inch meter	\$16.50	\$27.50	\$20.63
1-inch meter	\$27.50	\$55.00	\$34.38
1 1/2-inch meter	\$55.00	\$88.00	\$68.75
2-inch meter	\$88.00	\$165.00	\$110.00
3-inch meter	\$165.00	\$275.00	\$220.00
4-inch meter	\$275.00	\$395.00	\$343.75
6-inch meter	N/A	N/A	\$687.50

	Company Current <u>Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
Commodity Charges:			
All gallons -	2.96	6.00	N/A
Residential 5/8 x 3/4-inch and 3/4-inch meters:			
0 to 2,000 gallons			\$2.00
2,001 to 4,000 gallons			\$4.00
4,001 to 9,000 gallons			\$6.00
Over 9,000 gallons			\$8.25
All Other Residential and Commercial meters:			
0 to 9,000 gallons			\$6.00
Over 9,000 gallons			\$8.25
<u>Bill Impact on Median Use Customers</u>			
Residential bills:			
5/8 x 3/4-inch meters	\$20.95	\$36.67	\$23.19
3/4-inch meters	\$30.31	\$55.50	\$36.63

Customers:

There were 39 customers in the current test year. The Company does not expect any significant growth.

Notification:

The Affidavit of Customer Notification was filed on January 10, 2011.

Complaints/Opinions:

2008-2009: Zero Complaints
2010: One Complaint - Installation Delay
2011-Present: Zero Complaints

The one complaint has been resolved and closed.
21 Opinions have been filed, all opposed to the rate increase.

SUMMARY OF FILING

The test year results, as adjusted by Utilities Division Staff ("Staff") of the Arizona Corporation Commission ("Commission"), show that Narvol D. "Dean" Bales dba Sunizona Water Company ("Sunizona" or "Company") experienced an operating loss of \$9,871 and a negative rate of return, as shown in Schedule GWB-1.

The Company-proposed rates, as amended, produce operating revenues of \$40,638 and an operating loss of \$10,328 for a negative rate of return on a \$151,401 Original Cost Rate Base ("OCRB").¹ The Company's requested rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$36.67 for an increase of \$15.72, or 75.0 percent. The Company's requested rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$55.50 for an increase of \$25.19, or 83.1 percent.

Staff's recommended rates produce operating revenues of \$37,745 and an operating income of \$6,475 for an 11.50 percent rate of return on a Staff-adjusted OCRB of \$56,310. Staff's recommended rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$23.19 for an increase of \$2.24, or 10.7 percent. Staff's recommended rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$36.63 for an increase of \$6.31, or 20.8 percent.

BACKGROUND

On January 10, 2011, Sunizona filed an application for a permanent rate increase with the Commission. On February 15, 2011, and February 17, 2011, Sunizona filed certain amendments to its rate application. On February 16, 2011, Staff issued its Letter of Sufficiency.

CONSUMER SERVICES

A review of the Commission's records revealed one customer complaint for the years 2008 through 2011. There were 21 opinions filed regarding the proposed rate increase – all are opposed.

COMPLIANCE

A check with the Utilities Division Compliance Section showed the Company has no outstanding items.

The Company is current in its property and sales tax payments.

¹ The Company did not propose a fair value rate base that differs from its OCRB.

ENGINEERING ANALYSIS

The Staff Engineering Report is attached. Three of the engineering recommendations are included in the Staff Recommendations section of this report. All of the engineering recommendations are discussed in further detail in the attached Engineering Report.

RATE BASE

Staff recommends four adjustments that, in aggregate, decrease the Company's proposed OCRB by \$95,091, from \$151,401 to \$56,310, as shown in Schedule GWB-2, page 1. Details of Staff's adjustments are presented below.

Plant in Service

Staff decreases plant in service by \$32,640, from \$163,260 to \$130,620, as shown in Schedule GWB-2, Page 1, Adjustment A. In order to calculate the Plant in Service balances by account, Staff started with the plant in service balances approved in Docket Nos. W-03843A-00-0133 and W-01931A-00-0133, Decision No. 62578, dated May 16, 2000. Staff then issued a data request to the Company, asking for all subsequent additions and retirements. From the data provided in the response, Staff recalculated the Plant in Service balances for the test year and identified the following adjustments to plant in service, as shown in Schedule GWB-2, Page 2:

- Adjustment a removes the \$30,000 purchase price of the business, incorrectly capitalized in Account 301, Organization.
- Adjustment b increases Account 307, Wells and Springs, by \$26,399, from \$0 to \$26,399, to reflect the balances as identified by the Company and Staff.
- Adjustment c increases Account 311, Pumping Equipment, by \$2,457 from \$22,000 to \$24,457, to reflect the balances as identified by the Company and Staff.
- Adjustment d decreases Account 330.1, Storage Tanks, by \$2,514 from \$4,000 to \$1,486, for plant amounts not supported by the Company.
- Adjustment e increases Account 331, T&D Mains, by \$12,978 from \$18,509 to \$31,487, to reflect the balances as identified by the Company and Staff.
- Adjustment f increases Account 331, Services, by \$3,550 from \$1,712 to \$5,262, to reflect the balances as identified by the Company and Staff.
- Adjustment g decreases Account 334, Meters & Meter Installations, by \$13,900 from \$14,672 to \$772, for \$14,672 of plant amounts not supported by the Company, and offset by \$772 for a new system meter on the well.
- Adjustment h decreases Account 340, Office Furniture & Equipment, by \$1,000 from \$1,000 to \$0, for plant amounts not supported by the Company.
- Adjustment i decreases Account 340.1, Computers & Software, by \$2,120 from \$2,300 to \$180, for \$2,300 of plant amounts not supported by the Company, and offset by the capitalization of \$180 of software incorrectly expensed by the Company in its Miscellaneous Expense account, as discussed below.

- Adjustment j decreases Account 341, Transportation Equipment, by \$6,500 from \$6,500 to \$0, for plant amounts not supported by the Company.
- Adjustment k decreases Account 343, Tools, Shop and Garage Equipment, by \$10,000 from \$10,000 to \$0, for plant amounts not supported by the Company.
- Adjustment l decreases Account 345, Power Operated Equipment, by \$1,990 from \$35,000 to \$33,010, for plant amounts not supported by the Company.
- Adjustment m decreases Account 347, Miscellaneous Equipment, by \$10,000 from \$10,000 to \$0, for plant amounts not supported by the Company.

Accumulated Depreciation

Similar to the recalculation of Plant in Service, above, Staff started with Staff's work papers delineating the Accumulated Depreciation balances by NARUC account, the total of which were reflected in Docket Nos. W-03843A-00-0133 and W-01931A-00-0133, and approved in Decision No. 62578, dated May 16, 2000. To calculate the total Accumulated Depreciation balance for the end of the current test year, Staff recalculated the Accumulated Depreciation by NARUC account number since the last decision, using the depreciation rates approved in the last proceeding² applied to Staff's Plant in Service activity underlying Staff's recommended plant balances in this proceeding, as discussed above. Staff increases accumulated depreciation by \$77,631, from \$10,477 to \$88,108, as shown in Schedule GWB-2, Page 1, Adjustment B.

Working Capital

Staff increases the working capital allowance by \$2,680, from \$0 to \$2,680, using the formula method to reflect adjustments to cash operating expenses as shown in Schedule GWB-2, Page 1, Adjustment C. Adjustment C shows the total increase by components, 1/24 of Power and 1/8 of Operating and Maintenance Expenses.

Inventory

Staff increases the Inventory account by \$12,591, from \$0 to \$12,591, to reflect the value of spare parts on hand to minimize the possibility of service interruption, as shown in Schedule GWB-2, Page 1, Adjustment D. The \$12,591 was recorded by the Company in its Repairs and Maintenance and Miscellaneous Expense accounts in the amounts of \$4,721, and \$7,870, respectively. The corresponding reductions to those expense accounts are discussed below.

² In some instances, Staff used the depreciation rates that it is recommending in this proceeding, because the depreciation rates for certain plant accounts were not set forth in the last rate case.

Operating Income

Staff recommends seven adjustments that, in aggregate, decrease the test year operating loss by \$21,522, from the Company's proposed \$31,393 loss to a loss of \$9,871, as shown in Schedule GWB-3, Page 1. The reduction in operating loss is the result of Staff's adjustments to increase test year revenue by \$1,826, from \$19,573 to \$21,399, and to decrease operating expenses by \$19,696, from \$50,966 to \$31,270. Details of Staff's adjustments are presented below.

Operating Revenues

Metered Water Revenue – Adjustment A increases this account by \$1,826, from \$19,573 to \$21,399, to reflect the revenues derived from the billing determinants provided to Staff by the Company.

Operating Expenses

Repairs and Maintenance – Adjustment B decreases this account by \$6,064, from \$11,771 to \$5,707, to reflect the transfer of \$4,721 of the \$12,591 added to Inventory for spare parts, as discussed above, the removal of \$1,022 of expenses not supported by the Company, the removal of \$281 of personal expenses, and the correction of a \$40 transcription error. (See Schedule GWB-3, Page 1).

Outside Services – Adjustment C increases this account by \$1,044, from \$450 to \$1,494, to reflect the certified operator expenses erroneously included in the Water Testing account. This adjustment corresponds with the decrease of \$1,044 for certified operator expenses erroneously included in the Water Testing account, as discussed below. (See Schedule GWB-3, Page 1).

Water Testing – Adjustment D decreases this account by \$626, from \$1,369 to \$743, to reflect Staff's determination of the Company's annual water testing cost. The *net* decrease reflects a decrease of \$1,044 to transfer the cost of a certified operator to Outside Services, leaving a subtotal of \$325, which is then increased by \$418 to \$743 to reflect Staff's recommended Water Testing expense in this proceeding. (See Schedule GWB-3, Page 1).

Miscellaneous Expense – Adjustment E decreases this account by \$9,429, from \$10,720 to \$1,291, to reflect the transfer of \$7,870 of the \$12,591 added to Inventory for spare parts, as discussed above, to remove \$1,379 of expenses not supported by the Company, and to transfer \$180 for software added to Rate Base in Account 340.1, Computers and Software. (See Schedule GWB-3, Page 1).

Depreciation Expense – Adjustment F decreases this account by \$3,577, from \$10,480 to \$6,903, to reflect application of Staff's recommended depreciation rates to Staff's recommended

plant balances, less any fully-depreciated or non-depreciable plant. The calculation of Staff's recommended depreciation expense is shown in Schedule GWB-3, Page 3, and the corresponding adjustment is shown in Schedule GWB-3, Page 1.

Taxes Other than Income – Adjustment G decreases this account by \$1,044, from \$1,044 to \$0, to reflect that this amount represents Transaction Privilege Tax, or Sales Tax, and is considered to be a “pass through” item which would not be appropriately included in income and expense amounts. (See Schedule GWB-3, Page 1).

REVENUE REQUIREMENT

Staff's recommended total revenue of \$37,745 is based on the amount needed to cover the Company's operating expenses of \$31,270 as shown in Schedule GWB-1 and to provide an 11.50 percent rate of return on the \$56,401 OCRB. See Schedule GWB-1. For smaller utilities, Staff usually recommends a rate of return in the 9 to 12 percent range. Staff is recommending a rate in the high end of the range in this proceeding because of the relatively small rate base, as shown Schedule GWB-1.

RATE DESIGN

Schedule GWB-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company's requested rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$36.67 for an increase of \$15.72, or 75.0 percent. The Company's requested rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$55.50 for an increase of \$25.19, or 83.1 percent.

Staff's recommended rates would increase the residential bill for customers with a 5/8 x 3/4-inch meter and median usage of 3,361 gallons from \$20.95 to \$23.19 for an increase of \$2.24, or 10.7 percent. Staff's recommended rates would increase the residential bill for customers with a 3/4-inch meter and median usage of 4,667 gallons from \$30.31 to \$36.63 for an increase of \$6.31, or 20.8 percent, as shown on Schedules GWB-5.1 and -5.2, which also show the bill impacts for other usage levels.

Staff-recommended rates are presented in Schedule GWB-4.

SERVICE LINE AND METER INSTALLATION CHARGES

Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff

recommends separate service line and meter installation charges. Staff-recommended service line and meter installation charges are presented in Schedule GWB-4.

MISCELLANEOUS SERVICE CHARGES

The Company has proposed that the Establishment (After Hours) charge be increased from \$20 to \$25 and the Reconnection (Delinquent) after hours charge be increased from \$20 to \$35. Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. Therefore, Staff recommends elimination of both the Establishment (After Hours) charge and the Reconnection (Delinquent) After Hours charge. Instead, Staff recommends the creation of a separate \$25 after-hours service charge. For example, under Staff's proposal, a customer would be subject to a \$20 establishment fee if it is done during normal business hours, but would pay an additional \$25 after-hours fee if the customer requested that the establishment be done after normal working hours. Staff-recommended miscellaneous service charges are presented in Schedule GWB-4.

STAFF RECOMMENDATIONS

- Staff recommends approval of the Staff-proposed rates and charges as shown in Schedule GWB-4.
- Staff further recommends that the Company be ordered to file with Docket Control, as a compliance item in this Docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
- Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.
- Since the Company does not have a curtailment plan tariff, Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the Decision in this case for the review

and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>.

- Staff recommends that the Company be ordered to use Staff's typical and customary depreciation rates in the accounts listed in Table B of the attached Engineering Report on a going forward basis.

Narvol D. Bales DBA Sunizona Water Company

Docket No. W-03912A-11-0114

Schedule GWB-1

Test Year Ended December 31, 2009

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$19,573	\$21,399	\$40,638	\$37,745
Surcharge WIFA loan	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$19,573	\$21,399	\$40,638	\$37,745
Operating Expenses:				
Operation and Maintenance	\$37,719	\$22,644	\$37,719	\$22,644
Depreciation	10,480	6,903	10,480	6,903
Property & Other Taxes	2,767	1,723	2,767	1,723
Income Tax	0	0	0	0
Total Operating Expense	\$50,966	\$31,270	\$50,966	\$31,270
Operating Income/(Loss)	(\$31,393)	(\$9,871)	(\$10,328)	\$6,475
Rate Base O.C.L.D.	\$151,401	\$56,330	\$151,401	\$56,330
Rate of Return - O.C.L.D.	-20.74%	-17.52%	-6.82%	11.49%
Operating Margin	-160.39%	-46.13%	-25.41%	17.15%

Narvol D. Bales DBA Sunizona Water Company

Docket No. W-03912A-11-0114

Test Year Ended December 31, 2009

Schedule GWB-2

Page 1 of 3

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$163,260	(\$32,620)	A	\$130,640
Less:				
Accum. Depreciation	10,477	77,631	B	88,108
Net Plant	\$152,783	(\$110,251)		\$42,532
Less:				
Plant Advances	\$0	\$0		\$0
Customer Deposits	1,382	0		1,382
Total Advances	\$1,382	\$0		\$1,382
Contributions Gross	\$0	\$0		\$0
Less:				
Accumulated Amortization of CIAC	0	\$0		0
Net CIAC	\$0	\$0		\$0
Service Charge (After Hours)				
Total Deductions	\$1,382	\$0		\$1,382
Plus:				
1/24 Power	\$0	\$121	C	\$121
1/8 Operation & Maint.	\$0	2,469	C	2,469
Inventory	0	12,591	D	12,591
Prepayments	0	0		0
Total Additions	\$0	\$15,180		\$15,180
Rate Base	\$151,401	(\$95,071)		\$56,330

Explanation of Adjustments:

A To adjust the Plant in Service for total of adjustments shown on Schedule GWB-2, Page 2

B To increase Accumulated Depreciation as discussed in Staff Report

C To record adjustment for working capital.

D To record increase to Inventory for spare parts on hand.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$30,000	(\$30,000)	a	\$0
302 Franchises	0	0		\$0
303 Land & Land Rights	0	0		\$0
304 Structures & Improvements	0	0		\$0
307 Wells & Springs	0	26,399	b	\$26,399
311 Pumping Equipment	22,000	2,457	c	\$24,457
320 Water Treatment Equipment	0	0		0
320.1 Water Treatment Plants	0			\$0
320.2 Solution Chemical Feeders	0			\$0
330 Distribution Reservoirs & Standpipes	0			\$0
330.1 Storage Tanks	4,000	(2,514)	d	\$1,486
330.2 Pressure Tanks	7,567			\$7,567
331 Transmission & Distribution Mains	18,509	12,978	e	\$31,487
333 Services	1,712	3,550	f	\$5,262
334 Meters & Meter Installations	14,672	(13,900)	g	\$772
335 Hydrants	0	0		\$0
336 Backflow Prevention Devices	0	0		\$0
339 Other Plant and Misc. Equipment	0	0		\$0
340 Office Furniture & Equipment	1,000	(1,000)	h	\$0
340.1 Computers & Software	2,300	(2,120)	i	\$180
341 Transportation Equipment	6,500	(6,500)	j	\$0
343 Tools Shop & Garage Equipment	10,000	(9,980)	k	\$20
344 Laboratory Equipment	0	0		\$0
345 Power Operated Equipment	35,000	(1,990)	l	\$33,010
346 Communication Equipment	0	0		\$0
347 Miscellaneous Equipment	10,000	(10,000)	m	\$0
348 Other Tangible Plant	0	0		\$0
105 C.W.I.P.	0	0		0
TOTALS	\$163,260	(\$32,620)	A	\$130,640

a To remove purchase price of the business incorrectly capitalized in Account 301, Organization.

b To adjust, Account 307, Wells and Springs, for amounts not reflected in the Co. application.

c To restate Account 311, Pumping Equipment, to reflect the balances as identified by the Company and Staff.

d To restate Account 330.1, Storage Tanks, to reflect the balances as identified by the Company and Staff.

e To restate Account 331, T&D Mains, to reflect the balances as identified by the Co. and Staff.

f To restate Account 331, Services, to reflect the balances as identified by the Co. and Staff.

g To restate Account 334, Meters & Meter Installations, to reflect the balances as identified by the Company and Staff.

h To remove balance of Account 340, Office Furniture & Equipment which is not supported.

i To remove \$2,300 from Account 340.1, Computers & Software, for amounts that are not supported, and to capitalize \$180 of software incorrectly expensed by Co.

j To remove balance of Account 341, Transportation Equipment, which is not supported.

k To remove balance of Account 343, Tools, Shop and Garage Equipment, which is not supported.

l To restate Account 345, Power Operated Equipment, to reflect the balances as identified by the Company and Staff.

m To remove balance of Account 347, Miscellaneous Equipment, which is not supported.

A See Schedule GWB-2, page 1

Narvol D. Bales DBA Sunizona Water Company

Docket No. W-03912A-11-0114

Test Year Ended December 31, 2009

Schedule GWB-2

Page 3 of 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$10,477
Accumulated Depreciation - Per Staff	<u>88,108</u>
Total Adjustment	<u><u>\$77,631</u></u>

To increase Accumulated Depreciation, as discussed more fully in the Staff Report. Staff analyzed the activity that would have been appropriately recorded in this account by starting with the balance of Accumulated Depreciation approved in the last rate case and adjusting for activity through the end of the test year in this proceeding.

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$19,573	\$1,826 A	\$21,399
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$19,573	\$1,826	\$21,399
Operating Expenses:			
601 Salaries and Wages	\$4,556	\$0	\$4,556
610 Purchased Water	0	0	0
615 Purchased Power	2,893	0	2,893
618 Chemicals	0	0	0
620 Repairs and Maintenance	11,771	(6,064) B	5,707
621 Office Supplies & Expense	1,068	0	1,068
630 Outside Services	450	1,044 C	1,494
635 Water Testing	1,369	(626) D	743
641 Rents	0	0	0
650 Transportation Expenses	3,872	0	3,872
657 Insurance - General Liability	0	0	\$0
659 Insurance - Health and Life	1,020	0	1,020
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	10,720	(9,429) E	1,291
403 Depreciation Expense	10,480	(3,577) F	6,903
408 Taxes Other Than Income	1,044	(1,044) G	0
408.11 Property Taxes	1,723	0	1,723
409 Income Tax	0	0	0
Total Operating Expenses	\$50,966	(\$19,696)	\$31,270
OPERATING INCOME/(LOSS)	(\$31,393)	\$21,522	(\$9,871)

Narvol D. Bales DBA Sunizona Water Company

Docket No. W-03912A-11-0114

Test Year Ended December 31, 2009

Schedule GWB-3

Page 2 of 3

STAFF ADJUSTMENTS

A	Metered Water Revenue- per Company	19,573	
	Per Staff	21,399	<u>\$1,826</u>
	To restate revenues to reflect the billing determinants provided by the Company		
B -	REPAIRS & MAINTENANCE EXPENSE - Per Company	11,771	
	Per Staff	5,707	<u>(\$6,064)</u>
	To remove items erroneously included in the account		
C	OUTSIDE SERVICES - Per Company	450	
	Per Staff	1,494	<u>\$1,044</u>
	To adjusted for the cost of the certified operator		
D	WATER TESTING EXPENSE - Per Company	\$1,369	
	Per Staff	743	<u>(\$626)</u>
	To reflect normalized annual water testing cost		
E	MISCELLANEOUS EXPENSE - Per Company	10,720	
	Per Staff	1,291	<u>(\$9,429)</u>
	To remove items erroneously included in the account		
F	DEPRECIATION - Per Company	\$10,480	
	Per Staff	6,903	<u>(\$3,577)</u>
	To recalculate depreciation expense at Staff recommended rates See Page 3 of 3		
G	TAXES OTHER THAN INCOME - Per Company	1,044	
	Per Staff	0	<u>(\$1,044)</u>
	To remove Sales Taxes included in expenses		

STAFF ADJUSTMENTS (Cont.)

Pro Forma Annual Depreciation Expense:

Plant in Service	\$130,640
Less: Non Depreciable Plant	0
Fully Depreciated Plant	0
Depreciable Plant	<u>\$130,640</u>
Times: Staff Proposed Average Depreciation Rate	<u>5.28%</u>
Credit to Accumulated Depreciation	\$6,903
Less: Amort. of CIAC* @ 5.28%	<u>0</u>
Pro Forma Annual Depreciation Expense	<u><u>\$6,903</u></u>

*** Amortization of CIAC:**

Contribution(s) in Aid of Construction (Gross)	\$0
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	<u>0</u>
Amortizable Contribution(s)	<u>\$0</u>
Times: Staff Proposed Amortization Rate	<u>5.28%</u>
Amortization of CIAC	<u><u>\$0</u></u>

RATE DESIGN

Present Rates		Proposed Rates- Co.	Proposed Rates- Staff
Monthly Usage Charge	5/8" x 3/4" Meter	\$11.00	\$16.50
	3/4" Meter	\$16.50	\$27.50
	1" Meter	\$27.50	\$55.00
	1 1/2" Meter	\$55.00	\$88.00
	2" Meter	\$88.00	\$165.00
	3" Meter	\$165.00	\$275.00
	4" Meter	\$275.00	\$395.00
	6" Meter	N/A	N/A
Commodity Rates			
Gallons Included in Minimums		0	0
Commodity Charge per 1,000 gallons		\$2.96	N/A
Residential 5/8 x 3/4 inch	1 to 2,000 gallons	N/A	\$2.00
	2,001 to 4,000 gallon	N/A	\$4.00
	4,001 to 9,000 gallon	N/A	\$6.00
	Over 9,000 gallons	N/A	\$8.25
3/4 inch	1 to 2,000 gallons	N/A	\$2.00
	2,001 to 4,000 gallon	N/A	\$4.00
1 inch	1 to 9,000 gallons	N/A	\$6.00
	Over 9,000 gallons	N/A	\$8.25
1 1/2 inch	1 to 9,000 gallons	N/A	\$6.00
	Over 9,000 gallons	N/A	\$8.25
2 inch	1 to 9,000 gallons	N/A	\$6.00
	Over 9,000 gallons	N/A	\$8.25
3 inch	1 to 9,000 gallons	N/A	\$6.00
	Over 9,000 gallons	N/A	\$8.25

RATE DESIGN

4 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
6 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
Commercial 5/8 x 3/4 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
3/4 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
1 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
1 1/2 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
2 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
3 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
4 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
6 inch	1 to 9,000 gallons Over 9,000 gallons	N/A N/A	N/A N/A	\$6.00 \$8.25
Service Charges				
Establishment		\$15.00	\$20.00	\$20.00
Establishment (After Hours)		\$20.00	\$25.00	N/A
Reconnection (Delinquent)		\$20.00	\$30.00	\$30.00
Reconnection (Delinquent) after hours		\$20.00	\$35.00	N/A
Service Charge (After Hours)		N/A	N/A	\$25.00
Meter Test (If Correct)		\$10.00	\$10.00	\$10.00
Deposit		Per Rule*	Per Rule*	Per Rule*
Deposit Interest		Per Rule**	Per Rule**	Per Rule**
Re-Establishment (Within 12 Months)		Per Rule**	Per Rule**	Per Rule**
NSF Check		\$20.00	\$35.00	\$25.00
Deferred Payment		1% per month	1% per month	1.5% per month
Meter Re-Read (If Correct)		\$5.00	\$15.00	\$15.00
Late Fee		\$0.00	\$15.00	1.5% per month

Narvol D. Bales DBA
Sunizona Water Company
Docket No. W-03912A-11-0014
Test Year Ended
December 31, 2009

RATE DESIGN

Service Line and Meter Installation Charges				
		Total	Service Line	Meter
	5/8" x 3/4" Meter	\$278.00		
	3/4" Meter	\$309.00	\$247.00	\$62.00
	1" Meter	\$360.00	\$241.00	\$119.00
	1 1/2" Meter	\$552.00	\$352.00	\$200.00
	2" Meter	\$779.00	\$408.00	\$371.00
	3" Meter	\$1,010.00	\$450.00	\$560.00
	4" Meter	\$1,703.00	\$656.00	\$1,047.00
	6" Meter	\$3,769.00	\$1,347.00	\$2,422.00
		\$5,629.00	\$1,711.00	\$3,918.00

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** Per Commission Rules (R14-2-409.G)

**** 2.00% of the monthly minimum for a comparable sized meter connection but not less than \$10.00 per month.
The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Narvol D Bales DBA Sunizona Water Company
Docket No. W-03912A-11-0014
Test Year Ended December 31, 2009

Rate Design
Schedule GWB-5.1

Typical Bill Analysis
Residential 5/8 X 3/4-Inch Meters

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,162	\$ 32.20	\$ 59.47	\$ 27.27	84.70%
Median Usage	3,361	20.95	36.67	\$ 15.72	75.02%
Staff Recommended					
Average Usage	7,162	\$ 32.20	\$ 44.72	\$ 12.52	38.89%
Median Usage	3,361	20.95	23.19	\$ 2.24	10.71%

Present & Proposed Rates (Without Taxes)
Residential 5/8 X 3/4-Inch Meters

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 11.00	\$ 16.50	50.00%	\$ 13.75	25.00%
1,000	13.96	22.50	61.17%	15.75	12.82%
2,000	16.92	28.50	68.44%	17.75	4.91%
3,000	19.88	34.50	73.54%	21.75	9.41%
4,000	22.84	40.50	77.32%	25.75	12.74%
5,000	25.80	46.50	80.23%	31.75	23.06%
6,000	28.76	52.50	82.55%	37.75	31.26%
7,000	31.72	58.50	84.43%	43.75	37.93%
8,000	34.68	64.50	85.99%	49.75	43.45%
9,000	37.64	70.50	87.30%	55.75	48.11%
10,000	40.60	76.50	88.42%	64.00	57.64%
11,000	43.56	82.50	89.39%	72.25	65.86%
12,000	46.52	88.50	90.24%	80.50	73.04%
13,000	49.48	94.50	90.99%	88.75	79.37%
14,000	52.44	100.50	91.65%	97.00	84.97%
15,000	55.40	106.50	92.24%	105.25	89.98%
16,000	58.36	112.50	92.77%	113.50	94.48%
17,000	61.32	118.50	93.25%	121.75	98.55%
18,000	64.28	124.50	93.68%	130.00	102.24%
19,000	67.24	130.50	94.08%	138.25	105.61%
20,000	70.20	136.50	94.44%	146.50	108.69%
25,000	85.00	166.50	95.88%	187.75	120.88%
30,000	99.80	196.50	96.89%	229.00	129.46%
35,000	114.60	226.50	97.64%	270.25	135.82%
40,000	129.40	256.50	98.22%	311.50	140.73%
45,000	144.20	286.50	98.68%	352.75	144.63%
50,000	159.00	316.50	99.06%	394.00	147.80%
75,000	233.00	466.50	100.21%	600.25	157.62%
100,000	307.00	616.50	100.81%	806.50	162.70%

Narvol D Bales DBA Sunizona Water Company
Docket No. W-03912A-11-0014
Test Year Ended December 31, 2009

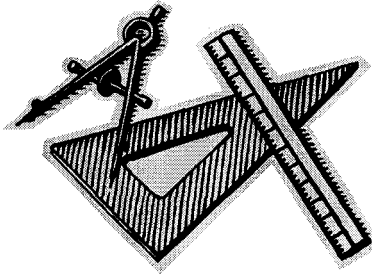
Rate Design
Schedule GWB-5.2

Typical Bill Analysis
Residential 3/4-Inch Meters

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	8,760	\$ 42.43	\$ 80.06	\$ 37.63	88.69%
Median Usage	4,667	30.31	55.50	\$ 25.19	83.09%
Staff Recommended					
Average Usage	8,760	\$ 42.43	\$ 61.19	\$ 18.76	44.20%
Median Usage	4,667	30.31	36.63	\$ 6.31	20.82%

Present & Proposed Rates (Without Taxes)
Residential 3/4-Inch Meters

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 16.50	\$ 27.50	66.67%	\$ 20.63	25.00%
1,000	19.46	\$ 33.50	72.15%	\$ 22.63	16.26%
2,000	22.42	\$ 39.50	76.18%	\$ 24.63	9.83%
3,000	25.38	\$ 45.50	79.28%	\$ 28.63	12.79%
4,000	28.34	\$ 51.50	81.72%	\$ 32.63	15.12%
5,000	31.30	\$ 57.50	83.71%	\$ 38.63	23.40%
6,000	34.26	\$ 63.50	85.35%	\$ 44.63	30.25%
7,000	37.22	\$ 69.50	86.73%	\$ 50.63	36.02%
8,000	40.18	\$ 75.50	87.90%	\$ 56.63	40.93%
9,000	43.14	\$ 81.50	88.92%	\$ 62.63	45.17%
10,000	46.10	\$ 87.50	89.80%	\$ 70.88	53.74%
11,000	49.06	\$ 93.50	90.58%	\$ 79.13	61.28%
12,000	52.02	\$ 99.50	91.27%	\$ 87.38	67.96%
13,000	54.98	\$ 105.50	91.89%	\$ 95.63	73.93%
14,000	57.94	\$ 111.50	92.44%	\$ 103.88	79.28%
15,000	60.90	\$ 117.50	92.94%	\$ 112.13	84.11%
16,000	63.86	\$ 123.50	93.39%	\$ 120.38	88.50%
17,000	66.82	\$ 129.50	93.80%	\$ 128.63	92.49%
18,000	69.78	\$ 135.50	94.18%	\$ 136.88	96.15%
19,000	72.74	\$ 141.50	94.53%	\$ 145.13	99.51%
20,000	75.70	\$ 147.50	94.85%	\$ 153.38	102.61%
25,000	90.50	\$ 177.50	96.13%	\$ 194.63	115.06%
30,000	105.30	\$ 207.50	97.06%	\$ 235.88	124.00%
35,000	120.10	\$ 237.50	97.75%	\$ 277.13	130.75%
40,000	134.90	\$ 267.50	98.30%	\$ 318.38	136.01%
45,000	149.70	\$ 297.50	98.73%	\$ 359.63	140.23%
50,000	164.50	\$ 327.50	99.09%	\$ 400.88	143.69%
75,000	238.50	\$ 477.50	100.21%	\$ 607.13	154.56%
100,000	312.50	\$ 627.50	100.80%	\$ 813.38	160.28%



**Engineering Report For
Sunizona Water Company
Docket No. W-03912A-11-0014 (Rates)**

March 14, 2011

SUMMARY

Conclusions

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Sunizona water system is currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, and Chapter 4, and the water system is in compliance with ADEQ requirements.
2. The Sunizona water system has adequate well production and storage capacities to serve the present customer base and a reasonable level of growth.
3. The system is not located in an Arizona Department of Water Resources ("ADWR") designated Active Management Area.
4. ADWR has determined that the Sunizona water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.
5. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company.
6. The Company has an approved backflow prevention tariff.

Recommendations

1. In 2009 the Sunizona water system had a 25.3 percent water loss, which exceeds the recommended limit of 10 percent. Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the

detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

2. The Company does not have a curtailment plan tariff. Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtailmentStandard2009.doc>. Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.
3. Staff recommends its annual water testing expense estimate of \$743 be used for this proceeding.
4. Staff recommends that the Company use Staff's typical and customary depreciation rates in the accounts listed in Table B.
5. Staff recommends that the separate service line and meter installation charges listed in Table C under the Column heading labeled "Staff's Recommendation" be adopted.

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I. INTRODUCTION AND LOCATION OF COMPANY

On January 10, 2011, Sunizona Water Company ("Company" or "Sunizona") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Commission Utilities Division Staff ("Staff") engineering review and analysis of the application is presented in this report.

The Company provides water service to approximately 39 customers in the small community of Sunizona, located at the junction of State Highways 191 and 181, approximately 30 miles southeast of Wilcox in Cochise County.

The plant facilities were visited on March 9, 2011, by Katrin Stukov, Staff Utilities Engineer, accompanied by the Company's owner and operator Narvol Dean Bales.

Figure 1 shows the location of the Company within Cochise County and Figure 2 delineates the Company's certificated area which covers approximately 639 acres (less than one square-mile).

Figure 1

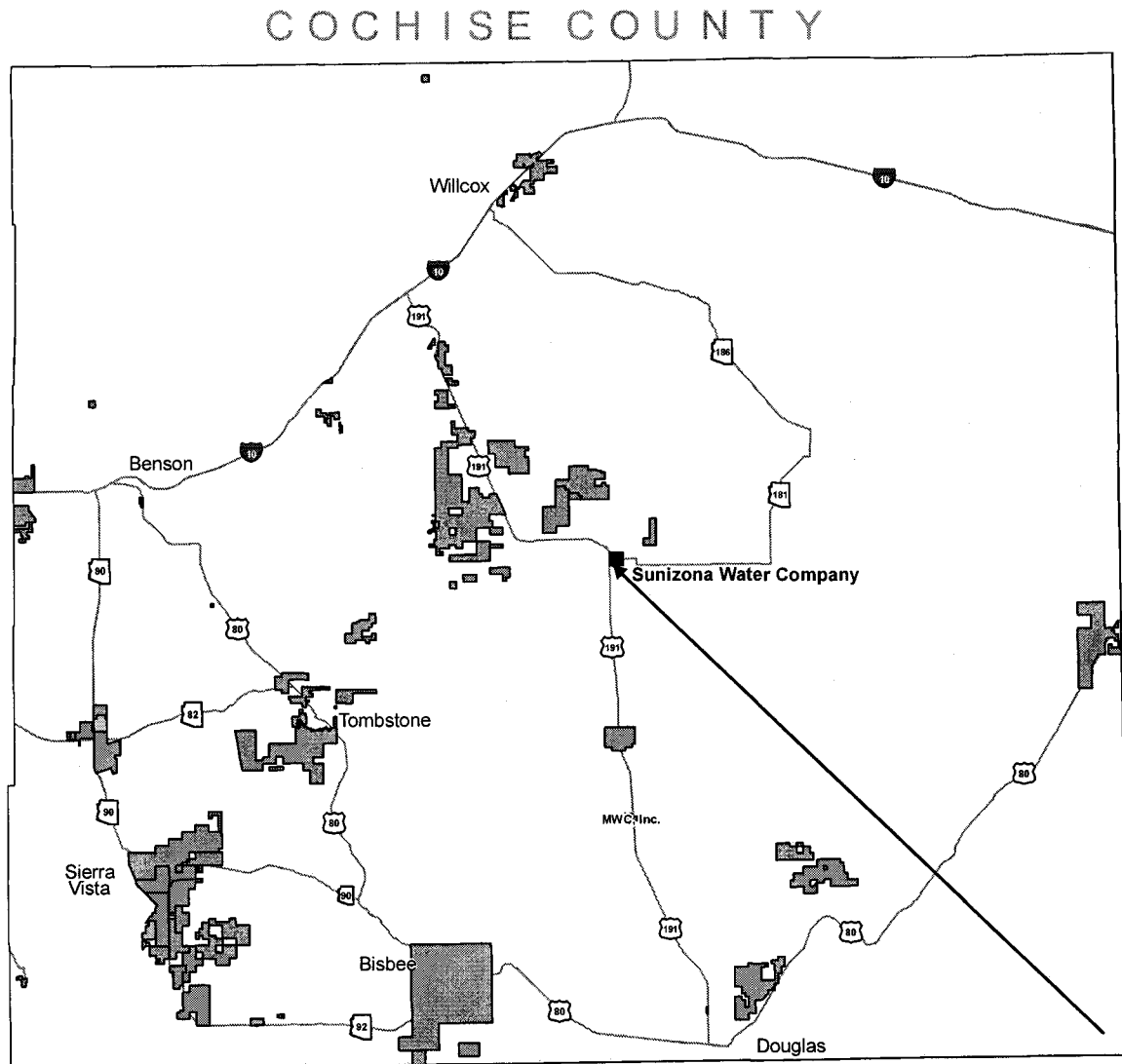
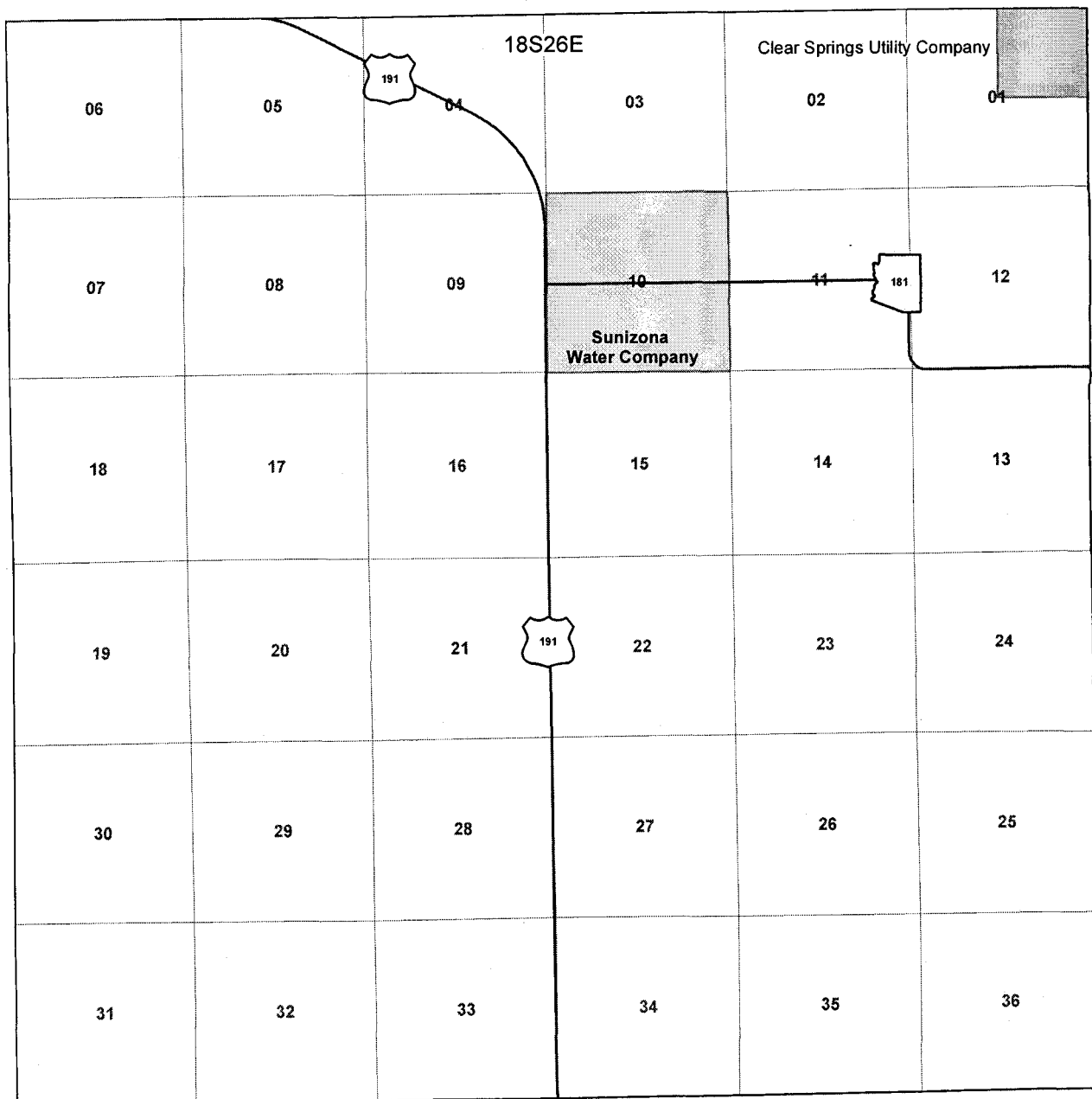


Figure 2

COCHISE COUNTY



II. WATER SYSTEM

1. Description of the Water System

The Sunizona water system consists of a single well (with 2 pumps), one storage tank, a pressure tank and a distribution system. The groundwater is pumped into a storage tank. From here the water enters a pressure tank which is pressurized by a booster pump. The water then flows to the distribution system with approximately 39 metered connections. Beside residential customers, the system serves a laundry, RV trailer park, grocery store, restaurant, and small strip mall.

A water system schematic is shown in Figure 3 and a plant facilities summary¹ is tabulated below:

Wells						
ADWR Well ID	Pump ² (HP)	Pump Yield (GPM)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-627843	15	100	440	14	3	1963
	10	50				

Storage Tanks		Pressure Tanks		Booster Pumps	
Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Horsepower (hp)	Quantity
2,700	1	5,500	1	5	1

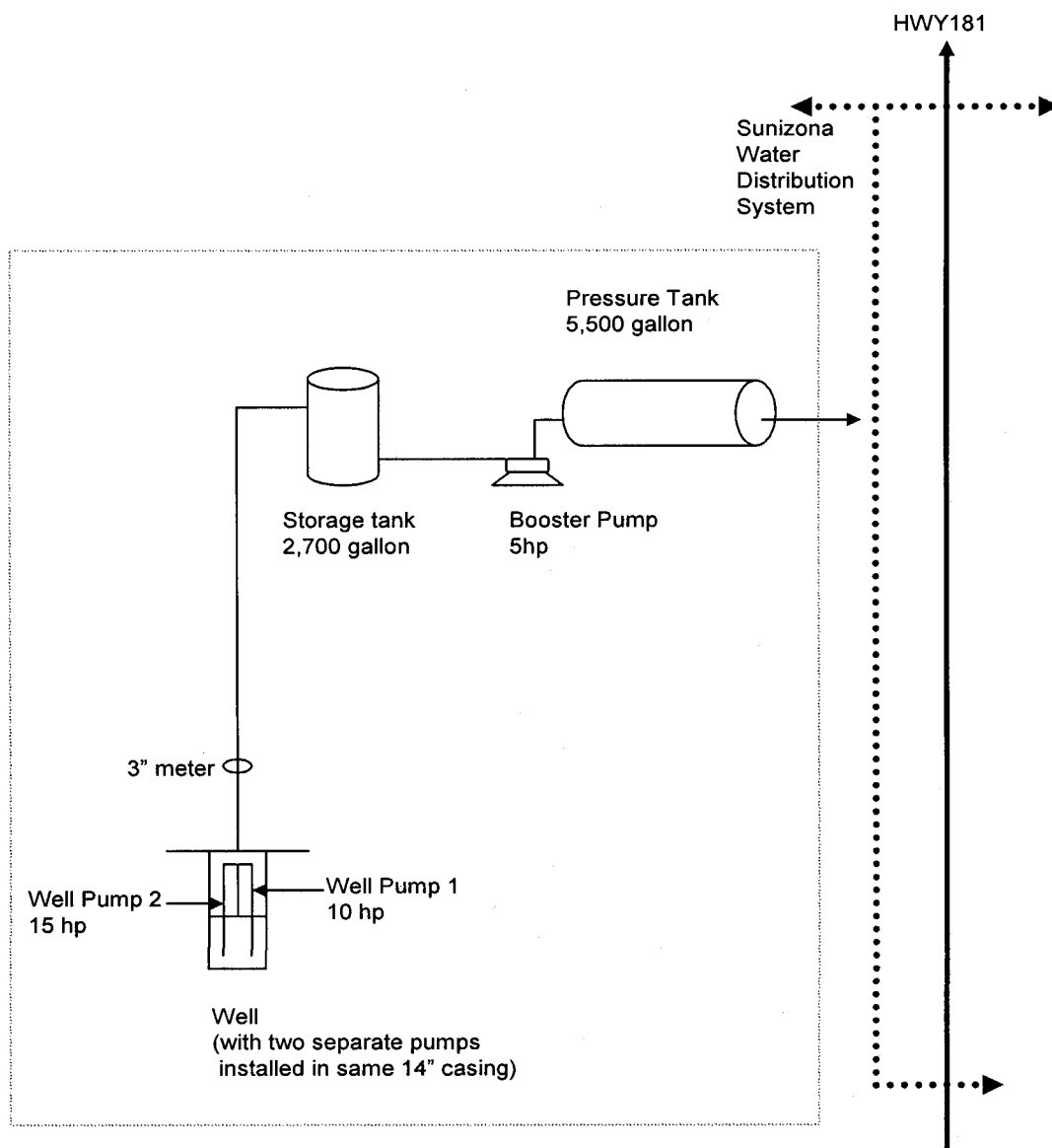
Mains			Customer Meters	
Size (inches)	Material	Length (feet)	Size (inches)	Quantity
2	PVC	600	5/8x3/4	15
4	PVC	13,500	3/4	15
6	PVC	4,800	1	7
			1 1/2	1
			2	1

Other
Fence

¹ Per Company's responses to Data Requests and site visit

² The well contains two separate submersible pumps housed in the same 14-inch diameter casing. The system's operator alternates the use of these two pumps by switching their breakers on and off.

Figure 3 Sunizona System Schematic

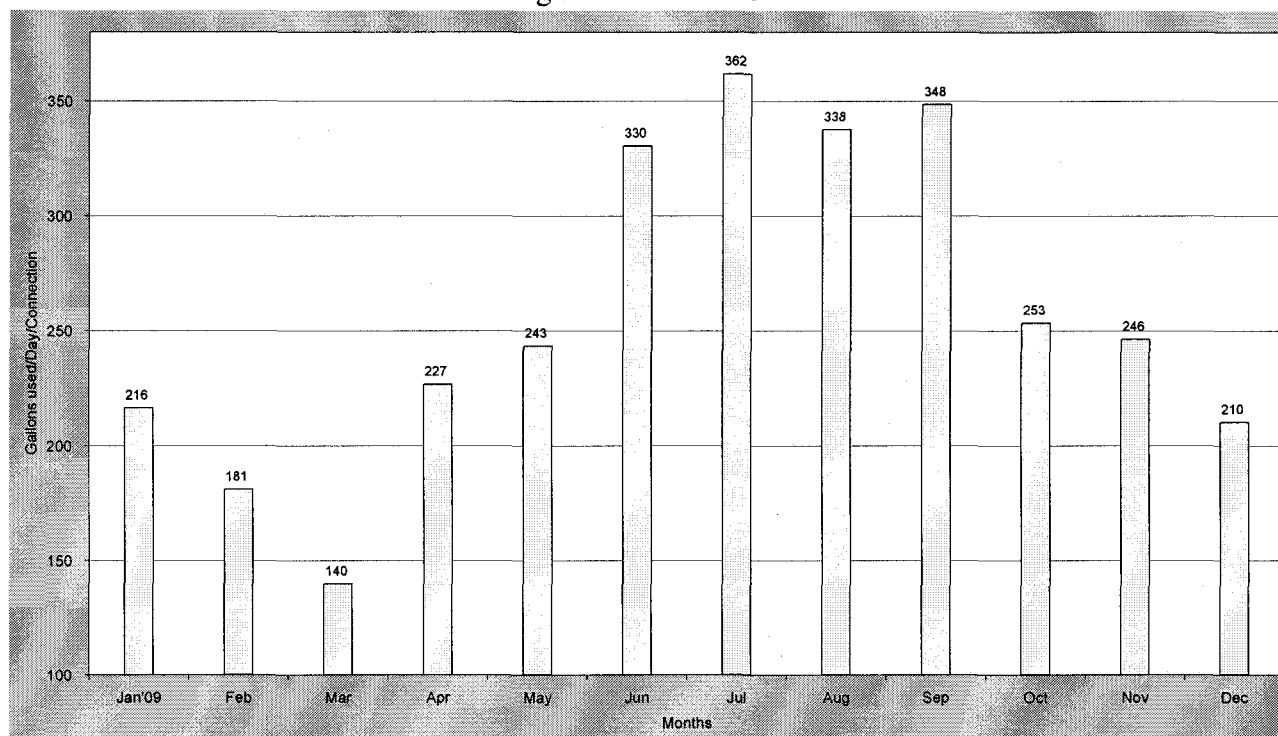


2. Water Use

Water Sold

Figure 4 represents the water consumption data provided by Sunizona in its water use data sheet for the test year ending December 31, 2009. Customer consumption included a high monthly water use of 362 gallons per day (“GPD”) in July, and the low water use was 140 GPD per connection in March. The average annual use was 258 GPD per connection.

Figure 4 Water Use



Non-account Water

Non-account water should be 10 percent or less, and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 4,703,429 gallons pumped and 3,514,351 gallons sold in 2009, resulting in a water loss of 25.3 percent, which exceeds the recommended limit of 10 percent. The Company tentatively attributed much of the water loss to several water main breaks and theft.

Staff recommends that the Company monitor its water system for a 12-month period and prepare a water loss reduction report. If the reported water loss is greater than 10 percent, the Company shall evaluate its water system and submit the water loss reduction report containing a detailed analysis and plan to reduce the water loss to 10 percent or less. If the Company believes

it is not cost effective to reduce the water loss to less than 10 percent, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15 percent. The Company shall file the water loss reduction report or the detailed analysis, whichever is submitted, with Docket Control, as a compliance item in this docket, within 13 months of the effective date of the decision in this case.

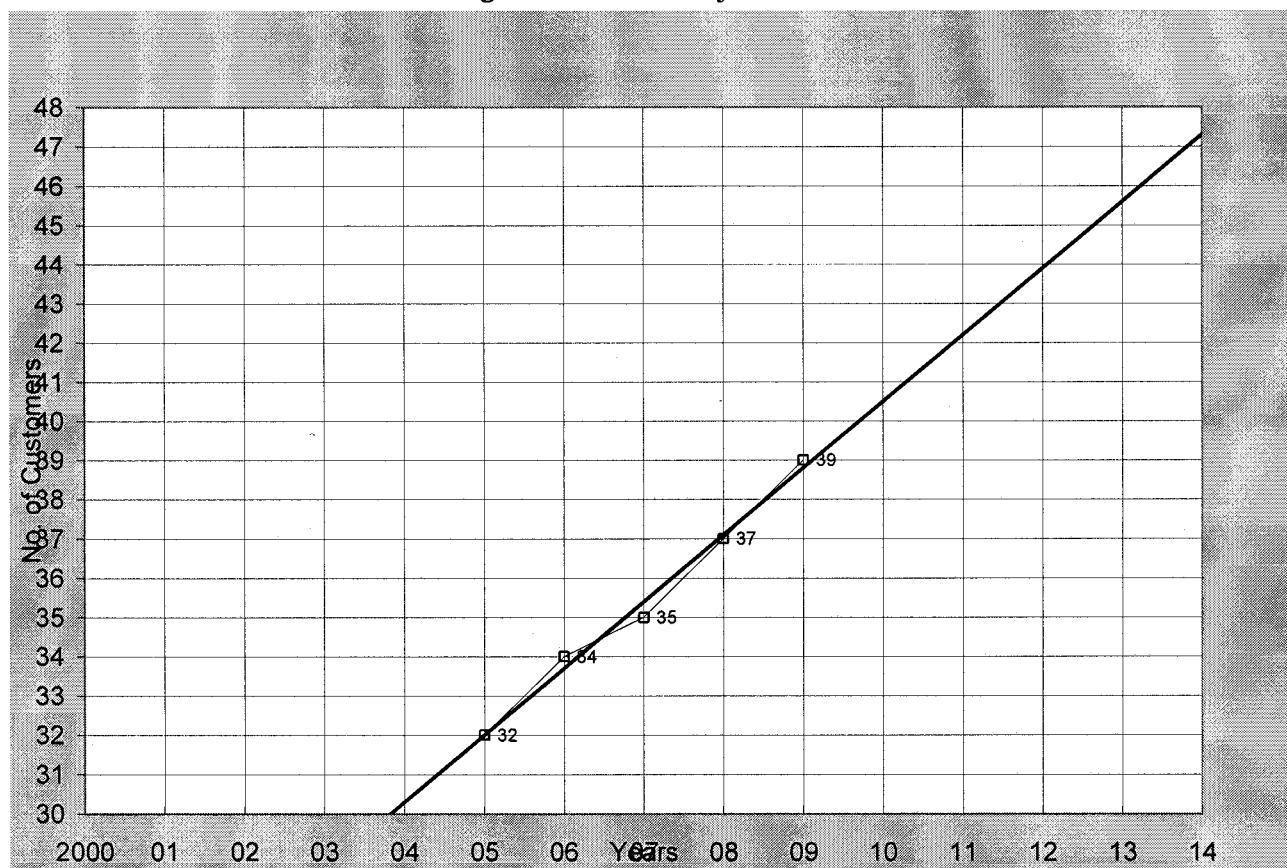
3. System Analysis

Based on the water use data provided by Sunizona for the Test Year, Staff concludes that the system's total well production capacity of 150 GPM and storage capacity of 2,700 gallons is adequate to serve the present customer base and reasonable growth.

4. Growth

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have over 47 customers by 2014.³ Figure 5 depicts actual growth from 2005 to 2009 and projects an estimated growth for the next five years using linear regression analysis.

Figure 5 Growth Projection



³ This projection assumes growth follows its historical trend since 2005, however, if the recent 2008/2009 growth rate continues, actual growth will be significantly lower.

III. ADEQ COMPLIANCE

1. Compliance

The Arizona Department of Environmental Quality ("ADEQ") has reported that the Sunizona water system is currently delivering water that meets water quality standards required by 40 CFR141/Arizona Administrative Code, Title 18, and Chapter 4, and the water system is in compliance with ADEQ requirements ⁴.

2 Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

Sunizona reported its water testing expense at \$1,369 during the test year. Staff has reviewed the invoices and found that \$325 relates to water testing expense and \$1,044 (certified operator fee) relates to outside service. Staff recalculated the testing costs based on additional ADEQ monitoring requirements for Lead and Copper and MAP participation. Staff's estimated average annual water testing expenses for the Company at \$743.

Table A lists Staff's annual monitoring expense estimates totaling \$743 with participation in the MAP⁵.

Staff recommends its annual water testing expense estimate of \$743 be used for this proceeding.

Table A. Water Testing Cost

Monitoring	Cost per Sample	No of samples per year	Average Annual Cost
Total coliform – monthly	\$25	13	\$325
Lead & Copper – per 3 years	\$45	5/3-yrs	\$75
MAP – IOCs, SOCs, VOCs, Radiochemical, Nitrate, Nitrite, Asbestos- annually	MAP	MAP	\$343
Total			\$743

⁴ Per ADEQ Compliance Status Report dated February 2, 2011.

⁵ The ADEQ MAP invoice for the 2009 Calendar Year was \$343, rounded.

IV. ADWR COMPLIANCE

Sunizona's system is not located in an ADWR designated Active Management Area.

The ADWR has determined that the Company's water system is currently in compliance with ADWR requirements governing water providers and/or community water systems.⁶

V. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Sunizona.⁷

VI. DEPRECIATION RATES

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table B. Staff recommends that Sunizona use Staff's typical and customary depreciation rates in the accounts listed in Table B.

⁶ Per ADWR Compliance Report dated January 21, 2011.

⁷ Per ACC Compliance status check dated January 20, 2011.

TABLE B
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTE: Acct. 348, Other Tangible Plant may vary from 5 percent to 50 percent. The depreciation rate would be set in accordance with the specific capital items in this account.

VII. OTHER ISSUES

1. Service Line and Meter Installation Charges

Sunizona has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's proposed charges are lower than Staff's customary range for these charges. Staff recommends the acceptance of the Company's proposed installation charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff, using the Company's proposed total charges.

Staff recommends that the separate service line and meter installation charges listed in Table C under the Column heading labeled "Staff's Recommendation" be adopted.

TABLE C
SERVICE LINE AND METER INSTALLATION CHARGES

Meter Size	Company's Current Tariff	Company's Proposed Tariff	Staff's Recommendation		
			Service Line Installation Charges	Meter Installation Charges	Total Charges
5/8"x 3/4"	\$278	\$309	\$247	\$62	\$309
3/4"	\$309	\$360	\$241	\$119	\$360
1"	\$360	\$552	\$352	\$200	\$552
1-1/2"	\$552	\$779	\$408	\$371	\$779
2"	\$779	\$1,010	\$450	\$560	\$1,010
3"	\$1,010	\$1,703	\$656	\$1,047	\$1,703
4"	\$1,703	\$3,769	\$1,347	\$2,422	\$3,769
6"	\$3,769	\$5,629	\$1,711	\$3,918	\$5,629

2. Curtilment Plan Tariff

Sunizona does not have an approved curtilment plan tariff. Staff recommends that the Company file a curtilment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at <http://www.azcc.gov/Divisions/Utilities/forms/CurtilmentStandard2009.doc>. Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

3. *Backflow Prevention Tariff*

The Company has an approved backflow prevention tariff.

MEMORANDUM

TO: Gerald Becker
Public Utilities Analyst V
Finance & Rate Analysis
Utilities Division

FROM: Richard Martinez *aw for*
Public Utilities Consumer Analyst II
Consumer Services
Utilities Division-Tucson

THRU: Connie Walczak *CW*
Consumer Services Manager
Utilities Division

DATE: April 22, 2011

**Re: IN THE MATTER OF THE APPLICATION OF NARVOL D. BALES dba
SUNIZONA WATER COMPANY FOR APPROVAL OF A RATE
INCREASE- DOCKET NO. W-03912A-11-0014**

COMPANY HISTORY

Sunizona Water Company ("Company") provides service to 39 metered customers in the town of Pearce, Arizona located within Cochise County. Present owner was granted authority to provide water by the Arizona Corporation Commission ("ACC") per Decision No. 63154 on November 16, 2000.

COMPLAINT HISTORY

For the period of January 1, 2008 through April 1, 2011, Consumer Services records reflect the following Complaints were filed against the Company:

2008-2009 Zero Complaints
2010 One Complaint - Installation Delay
2011 - Present - Zero Complaints
The one complaint has been resolved and closed.

OPINION HISTORY (FOR OR AGAINST RATE INCREASE)

Twenty-One Opinions have been filed all against the current proposed rate case.

STAFFS' RECOMMENDATIONS

1. The Company has proposed an increase in Establishment (after hours) and Reconnection (delinquent) after hours. Staff agrees that an additional fee for service provided after normal business hours is appropriate when such service is at the customer's request or for the customer's convenience. Such a tariff compensates the utility for additional expenses incurred from providing after-hours service. Moreover, Staff concludes that it is appropriate to apply an after-hours service charge in addition to the charge for any utility service provided after hours at the customer's request or for the customer's convenience. Therefore, Staff recommends elimination of the Company's requested Establishment (after hours) and Reconnection (Delinquent) After Hours charge and, instead, Staff recommends the creation of a separate \$25 after-hours service charge. For example, under Staff's proposal, a customer would be subject to a \$20 Establishment fee if it is done during normal business hours, but would pay an additional \$25 after-hours fee if the customer requested that the establishment be done after normal business hours.

2. Staff recommends the following changes:

Eliminate:

Establishment (after hours)	Current \$20.00	Proposed \$25.00
Reconnection (delinquent) after hours	Current \$20.00	Proposed \$35.00

Add:

Service Charge - after hours	Staff Proposed \$25.00
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3. Staff further recommends a late fee of 1.5 percent per month of the unpaid balance in order to remain consistent with the other utility companies.
4. Staff further recommends a Deferred Payment of 1.5 percent in order to remain consistent with the other utility companies.

AFFIDAVIT OF MAILING

The Company's Affidavit of Mailing of the Customer Notification was filed on January 10, 2011.

BILL FORMAT COMPLIANCE

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409. B. 2.

CORPORATIONS DIVISION STATUS

Per discussion with the Corporations Division, Company is a Sole Proprietorship; therefore, does not file Annual Reports.

CROSS-CONNECTIONS/BACK-FLOW TARIFF

The Company's Cross Connection/Backflow Tariff was approved effective February 29, 2000.

CURTAILMENT TARIFF

The Company has been advised by the ACC's Engineering Department that Company has up to 45 days within the date of this rate case's Decision to get their curtailment tariff application to Docket Control.

PUBLIC COMMENT MEETING

A Public Comment Meeting has not been requested by customers nor scheduled by Staff at this time.

INTERVENORS

There have been no interveners at this time.